

Copper Basin Utility District

**Financial Statements with Accompanying Information
Years Ended June 30, 2009 and 2008**

and

Independent Auditors' Report

COPPER BASIN UTILITY DISTRICT

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Independent Auditors' Report

Board of Commissioners
of Polk County, Tennessee
Turtletown, Tennessee

We have audited the accompanying balance sheets of the Copper Basin Utility District (the "District"), a component unit of Polk County, Tennessee, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2009 and 2008, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2010, on our consideration of District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the District taken as a whole. The accompanying information and the schedule of expenditures of federal awards included on pages 20 through 27 are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

HG & A Associates, P.C.

January 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Copper Basin Utility District (the "District") offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

The information presented here should be considered in conjunction with the District's basic financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The total assets exceeded liabilities at the close of the most recent fiscal year by \$3,278,001, an increase of \$449,125 from 2008. Of this amount, \$329,300 is available to be used to meet the government's ongoing obligations.
- The operating loss was \$35,162 and the loss before capital contributions was \$77,150.
- Capital assets increased by \$584,928.
- Debt was reduced by payments totaling \$44,115.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Copper Basin Utility District's basic financial statements. The basic financial statements include the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Statements

The Copper Basin Utility District maintains its activities in a single major proprietary fund. Proprietary funds are used to account for activities that are similar to those often found in the private sector.

The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government fund financial statements. The notes to the financial statements can be found on pages 12 through 19 of this report.

Financial Analysis

Net assets may serve over time as a useful indicator of a District's financial position. The Copper Basin Utility District's assets exceeded liabilities by \$3,278,001 and \$2,828,876 at the close of 2009 and 2008, respectively.

The largest portion of the District's net assets (90%) reflects its investment in capital assets (e.g., land, buildings, equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water and sewer services to citizens so these assets are not available for future spending. Although the District's \$2,948,701 investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED FINANCIAL INFORMATION

BALANCE SHEET

June 30, 2009 and 2008

	2009	2008
Current and other assets:		
Cash	\$ 253,053	271,203
Other assets	111,415	106,965
Capital assets	3,828,385	3,394,912
Total assets	\$ 4,192,853	3,773,080
Other liabilities	\$ 75,357	65,145
Noncurrent liabilities	839,495	879,059
Total liabilities	914,852	944,204
Net assets:		
Invested in capital assets, net of related debt	2,948,701	2,471,113
Unrestricted	329,300	357,763
Total net assets	3,278,001	2,828,876
Total liabilities and net assets	\$ 4,192,853	3,773,080

Assets, relating to liabilities for customer deposits, that are subject to external restrictions on how they may be used totaled \$6,596 at June 30, 2009 and 2008. The balance of unrestricted net assets (\$329,300 and \$357,763 at June 30, 2009 and 2008, respectively) may be used to meet the District's ongoing obligations.

During the current fiscal year, the District's net assets increased by \$449,125.

The following is a summary of financial activities for the District during the fiscal years ending June 30, 2009 and 2008:

CONDENSED FINANCIAL INFORMATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Program revenues:		
Charges for services	\$ 691,254	597,651
Contributions	526,275	-
General revenues:		
Interest	<u>3,567</u>	<u>8,891</u>
Total revenues	<u>1,221,096</u>	<u>606,542</u>
Expenses:		
Operating expenses	726,416	668,921
Interest on debt	<u>45,555</u>	<u>46,825</u>
Total expenses	<u>771,971</u>	<u>715,746</u>
Change in net assets	449,125	(109,204)
Net assets, beginning of year	<u>2,828,876</u>	<u>2,938,080</u>
Net assets, end of year	<u>\$ 3,278,001</u>	<u>2,828,876</u>

Copper Basin Utility District's total revenues for 2009 increased \$614,554 over 2008. The District attributes the increase to the fact that they implemented a three year program to increase customer rates approximately 17% each year starting May 1, 2008 and \$526,275 of funding by the State of Tennessee and the City of Ducktown to assist with costs of the Isabella water line extension.

Certain expenses increased in 2009 over 2008. Major increases in expenses (over \$7,500) were due to the following: increased costs of health and general liability insurance of approximately \$9,800, increased costs of materials and supplies of approximately \$8,400, and increased professional fees of approximately \$20,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Copper Basin Utility District's investment in capital assets as of June 30, 2009, was \$3,828,385 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, and infrastructure (water and sewer lines).

The major capital asset event during the current fiscal year was the \$577,054 Isabella water line extension. In addition, the total cost for land easements purchased in fiscal year 2009 was \$3,900.

Capital Assets
(net of depreciation)

	<u>2009</u>	<u>2008</u>
Land and land easements	\$ 145,900	142,000
Buildings and distribution system	2,799,843	2,341,839
Sewer plant	877,974	909,432
Equipment and furnishings	4,668	1,641
	<u>\$ 3,828,385</u>	<u>3,394,912</u>

Additional information on the Copper Basin Utility District's capital assets can be found on pages 17 and 18 of this report.

DEBT

At the end of the current fiscal year, the Copper Basin Utility District had total debt outstanding of \$879,684.

Outstanding Debt

	<u>2009</u>	<u>2008</u>
Series 2005 Revenue Bonds	\$ 537,842	545,369
Series 2002 Revenue Bonds	131,842	133,430
Series 1997 Revenue Bonds	210,000	245,000
	<u>\$ 879,684</u>	<u>923,799</u>

During the current fiscal year, the Copper Basin Utility District reduced debt by principal payments of \$44,115.

Additional information on the Copper Basin Utility District's long-term debt can be found on pages 15 and 16 of this report.

BUDGETS

There were no variances between the originally adopted budget for the fiscal year ending June 30, 2009 and its final budget.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

Copper Basin Utility District anticipates a 2% increase in the number of its customers during fiscal year 2010 due to the additional water line extension and general growth in the area and another substantial rate increase anticipated to occur in May 2010.

The above factors were considered in preparing the Copper Basin Utility District's budget for fiscal year 2010.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Copper Basin Utility District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Copper Basin Utility District, 2597 Highway 68, Turtletown, Tennessee 37391.

COPPER BASIN UTILITY DISTRICT

Balance Sheets
June 30, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 246,457	264,607
Accounts receivable - customers (less allowance for doubtful accounts of \$1,568 in 2009 and \$1,420 in 2008)	76,824	69,583
Prepaid insurance	9,141	8,959
Total current assets	<u>332,422</u>	<u>343,149</u>
Restricted assets:		
Customer deposits	<u>6,596</u>	<u>6,596</u>
Other assets:		
Deferred charges-bond issue costs	<u>25,450</u>	<u>28,423</u>
Capital assets:	6,865,445	6,280,517
Less: accumulated depreciation	<u>3,037,060</u>	<u>2,885,605</u>
	<u>3,828,385</u>	<u>3,394,912</u>
Total assets	<u>\$ 4,192,853</u>	<u>3,773,080</u>
<u>Liabilities and Net Assets</u>		
Current liabilities (payable from current assets):		
Current installments of long-term debt	\$ 40,189	44,740
Accounts payable	23,914	7,492
Accrued interest	1,506	1,485
Accrued wages and compensated absences	3,152	4,832
Total current liabilities (payable from current assets)	<u>68,761</u>	<u>58,549</u>
Current liabilities (payable from restricted assets):		
Customer deposits	<u>6,596</u>	<u>6,596</u>
Total current liabilities	<u>75,357</u>	<u>65,145</u>
Long-term debt, less current installments	<u>839,495</u>	<u>879,059</u>
Total liabilities	<u>914,852</u>	<u>944,204</u>
Net assets:		
Invested in capital assets, net of related debt	2,948,701	2,471,113
Unrestricted net assets	<u>329,300</u>	<u>357,763</u>
Total net assets	<u>3,278,001</u>	<u>2,828,876</u>
Total liabilities and net assets	<u>\$ 4,192,853</u>	<u>3,773,080</u>

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Customer sales:		
Water	\$ 542,043	463,036
Sewer	113,459	107,640
Tap fees:		
Water	35,900	25,000
Sewer	-	2,400
	691,402	598,076
Less provision for uncollectible accounts	148	425
Total operating revenues	691,254	597,651
Operating expenses:		
Water	594,010	538,691
Sewer	132,406	130,230
Total operating expenses	726,416	668,921
Operating loss	(35,162)	(71,270)
Nonoperating income (expense):		
Interest income	3,567	8,891
Interest expense	(42,583)	(43,853)
Amortization of deferred charges	(2,972)	(2,972)
Total nonoperating income (expense)	(41,988)	(37,934)
Loss before capital contributions	(77,150)	(109,204)
Capital contributions:		
State of Tennessee	15,032	-
City of Ducktown	511,243	-
	526,275	-
Change in net assets	449,125	(109,204)
Total net assets, beginning of the year	2,828,876	2,938,080
Total net assets, end of the year	\$ 3,278,001	2,828,876

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$ 684,013	576,799
Cash payments for goods and services	(362,029)	(315,607)
Cash payments for employees	(198,371)	(207,036)
Net cash provided by operating activities	123,613	54,156
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(73,685)	(3,900)
Principal payments on long-term debt	(44,115)	(39,489)
Interest paid on long-term debt	(42,562)	(43,797)
Capital contributed - State of Tennessee	15,032	-
Net cash used by capital and related financing activities	(145,330)	(87,186)
Cash flows from investing activities:		
Interest received	3,567	8,891
Net cash provided by investing activities	3,567	8,891
Net decrease in cash and cash equivalents	(18,150)	(24,139)
Cash and cash equivalents, beginning of year	271,203	295,342
Cash and cash equivalents, end of year	\$ 253,053	271,203
Cash	\$ 246,457	264,607
Restricted assets	6,596	6,596
	\$ 253,053	271,203

(continued)

COPPER BASIN UTILITY DISTRICT

Statements of Cash Flows (Continued)

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ <u>(35,162)</u>	<u>(71,270)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	151,455	145,588
(Increase) decrease in:		
Accounts receivable	(7,241)	(20,852)
Prepaid insurance	(182)	1,214
Increase (decrease) in:		
Accounts payable	16,423	(622)
Other accrued expenses	<u>(1,680)</u>	<u>98</u>
Total adjustments	<u>158,775</u>	<u>125,426</u>
Net cash provided by operating activities	<u>\$ 123,613</u>	<u>54,156</u>
Noncash capital and financing activities:		
Water line extension donated by City of Ducktown	<u>\$ 511,243</u>	<u>-</u>

The notes to financial statements are an integral part of these statements.

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies

The following items set forth the significant accounting policies, not disclosed elsewhere in the notes to financial statements, which the Copper Basin Utility District follows in presenting its financial statements.

(a) Reporting Entity

The Copper Basin Utility District (the District) is organized and operates under Chapter 16, Sections 5-16-101 through 5-16-112, of the Tennessee Code Annotated, as amended, for the purpose of providing water and sewer services to its customers. The powers of the District are vested in and exercised by a majority of the members of the Board of Commissioners who are appointed by the District's primary government.

The District is a discretely presented component unit of Polk County, Tennessee, and the financial statements are presented in both the District's separate financial report and within the Polk County, Tennessee report. The District is considered a discretely presented component unit of Polk County, Tennessee as defined under the criteria set forth in Government Accounting Standards Board Statement 14, because the District would be unable to issue debt without going through Polk County, Tennessee.

(b) Basis of Accounting

The District reports its financial activities under the applicable provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external reporting for all state and local governmental entities that includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

Unrestricted – The component of net asset consisting of net assets that do not meet the definition “restricted” or “invested in capital assets, net of related debt.”

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

The District uses the accrual basis of accounting, whereby revenues are recognized when they are earned, and expenses are recognized when they are incurred. The only exception is unbilled revenue from the date of the last month’s meter reading to the end of the fiscal year, which is not accrued. The District observes all Financial Accounting Standards Board (FASB) statements and interpretations issued, provided they do not conflict with standards established by the Government Accounting Standards Board (GASB).

(c) Utility Plant in Service

Utility plant in service is recorded at an initial, individual cost of more than \$500 and with an estimated useful life in excess of three years and includes expenditures for new facilities and equipment, extensions or betterments to the system, and costs of significant service connections. Donated property, if any, is recorded at its fair value at the date of donation. Interest costs, if any, are capitalized during the construction phase of plant and equipment. Depreciation is determined on the straight-line method over the estimated useful lives of the assets, which range from 3 to 45 years. Depreciation expense was \$151,455 and \$145,588 for the years ended June 30, 2009 and 2008, respectively.

(d) Revenues and Expenses

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Nonoperating revenues and expense consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for the purposes for which there are both restricted and unrestricted net assets available, it is the District’s policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(1) Summary of Significant Accounting Policies (continued)

(e) Deferred Charges

Deferred charges represent unamortized bond issue costs and are being amortized over the life of the debt.

(f) Compensated Absences

The District recognizes the cost of vacation pay in the year it is earned. Employees are not permitted to accumulate unused vacation days, which are based on a calendar year. However, at June 30 some employees had earned vacation days that they had not yet used. This amount has been accrued in the financial statements. Sick pay benefits do not vest and are recognized when paid.

(g) Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers temporary investments with original maturities of three months or less as cash equivalents.

(h) Accounts receivable

Accounts receivable are recorded at gross amounts receivable, less an allowance for estimated uncollectible accounts. The allowance is calculated as a percentage of the receivable balance at year-end based upon historical collection rates.

(i) Tax Status

The District is a political subdivision of the State of Tennessee and is not subject to federal income taxes or state franchise and excise taxes.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Bank Deposits

The District's deposits consist of various operating accounts, which earned interest at rates ranging from .40% to .50% during 2009. At June 30, 2009, the total carrying amount of the District's deposits was \$253,053 and the bank balances were \$259,508.

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(2) Bank Deposits (continued)

Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As required by state statutes, the District's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2009 none of the District's bank balances was exposed to credit risk.

(3) Long-Term Debt

<u>Bonds Payable through FHA Program:</u>	<u>2009</u>	<u>2008</u>
\$590,900 Waterworks Revenue Bonds, Series 2002, due in monthly installments of \$2,713, including interest at 4.5%, through 2040	\$ 537,843	545,369
\$137,200 Waterworks Revenue Bonds, Series 2005, due in monthly installments of \$630, including interest at 4.5%, through 2044	<u>131,841</u>	<u>133,430</u>
Total bonds payable with FHA	669,684	678,799
<u>Bond Payable to Financial Institutions:</u>		
\$480,000 Waterworks Revenue and Tax Refunding Serial Bonds, Series 1997, principal of \$25,000 to 40,000 due each January 1, interest due on January 1 and July 1, including interest at 4.3% to 5.15%, through January 2015	<u>210,000</u>	<u>245,000</u>
Total bonds payable	879,684	923,799
Less current installments	<u>40,189</u>	<u>44,740</u>
	\$ <u>839,495</u>	<u>879,059</u>

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(3) Long-Term Debt (continued)

Changes in long-term debt during the year ended June 30, 2009 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due In One Year
FHA bonds: waterworks revenue bonds	\$ 678,799	-	9,115	669,684	10,189
Financial institution bonds	245,000	-	35,000	210,000	30,000
	<u>\$ 923,799</u>	<u>-</u>	<u>44,115</u>	<u>879,684</u>	<u>40,189</u>

The bond resolutions authorizing the issuance of these bonds contain certain restrictions and requirements with respect to disposition of revenues and reporting the results of operations. Management believes that the District is in compliance with all restrictions and requirements of the bond resolutions at June 30, 2009.

The bonds are collateralized by a first pledge of revenues derived from the operations of the waterworks system and by a statutory mortgage lien on the waterworks system. In the event of a deficiency of such revenues, these bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within Polk County, Tennessee. Interest expense totaled \$42,583 and \$43,853 in 2009 and 2008, respectively.

Maturities of long-term debt are as follows:

Year Ended June 30	FHA Bonds		Bonds Payable to Financial Institutions		Total
	Principal	Interest	Principal	Interest	
2010	\$ 10,189	29,927	30,000	10,695	80,811
2011	10,656	29,460	30,000	9,210	79,326
2012	11,146	28,970	35,000	7,725	82,841
2013	11,659	28,457	35,000	5,923	81,039
2014	12,194	27,922	40,000	4,120	84,236
2015 to 2019	69,906	130,674	40,000	2,058	242,638
2020 to 2024	87,507	113,073	-	-	200,580
2025 to 2029	109,541	91,039	-	-	200,580
2030 to 2034	137,123	63,457	-	-	200,580
2035 to 2039	171,650	28,930	-	-	200,580
2040 to 2044	38,113	2,941	-	-	41,054
	<u>\$ 669,684</u>	<u>574,850</u>	<u>210,000</u>	<u>39,731</u>	<u>1,494,265</u>

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(4) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. There were no significant reductions in limits of liability or coverage of insurance policies in effect during 2009 from those in effect in 2008 and 2007. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land easements	\$ 142,000	3,900	-	145,900
	<u>142,000</u>	<u>3,900</u>	<u>-</u>	<u>145,900</u>
Capital assets, being depreciated:				
Buildings and distribution system	4,849,087	577,054	-	5,426,141
Sewer plant	1,197,034	-	-	1,197,034
Equipment and furnishings	50,590	3,974	-	54,564
Transportation equipment	41,806	-	-	41,806
	<u>6,138,517</u>	<u>581,028</u>	<u>-</u>	<u>6,719,545</u>
Less accumulated depreciation for:				
Buildings and distribution system	(2,507,248)	(119,050)	-	(2,626,298)
Sewer plant	(287,602)	(31,458)	-	(319,060)
Equipment and furnishings	(48,949)	(947)	-	(49,896)
Transportation equipment	(41,806)	-	-	(41,806)
	<u>(2,885,605)</u>	<u>(151,455)</u>	<u>-</u>	<u>(3,037,060)</u>
Total capital assets, being depreciated, net	<u>3,252,912</u>	<u>429,573</u>	<u>-</u>	<u>3,682,485</u>
Capital assets, net	<u>\$ 3,394,912</u>	<u>433,473</u>	<u>-</u>	<u>3,828,385</u>

(continued)

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(5) Capital Assets (continued)

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land easements	\$ 138,100	3,900	-	142,000
	<u>138,100</u>	<u>3,900</u>	<u>-</u>	<u>142,000</u>
Capital assets, being depreciated:				
Buildings and distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment and furnishings	50,590	-	-	50,590
Transportation equipment	41,806	-	-	41,806
	<u>6,138,517</u>	<u>-</u>	<u>-</u>	<u>6,138,517</u>
Less accumulated depreciation for:				
Buildings and distribution system	(2,393,699)	(113,549)	-	(2,507,248)
Sewer plant	(256,144)	(31,458)	-	(287,602)
Equipment and furnishings	(48,368)	(581)	-	(48,949)
Transportation equipment	(41,806)	-	-	(41,806)
	<u>(2,740,017)</u>	<u>(145,588)</u>	<u>-</u>	<u>(2,885,605)</u>
Total capital assets, being depreciated, net	<u>3,398,500</u>	<u>(145,588)</u>	<u>-</u>	<u>3,252,912</u>
Capital assets, net	<u>\$ 3,536,600</u>	<u>(141,688)</u>	<u>-</u>	<u>3,394,912</u>

(6) Changes in Amounts Invested in Capital Assets, Net of Related Debt

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

	2009	2008
Balance at July 1	\$ 2,471,113	2,573,312
Change in capital assets	433,473	(141,688)
Change in related debt	<u>44,115</u>	<u>39,489</u>
Balance at June 30	<u>\$ 2,948,701</u>	<u>2,471,113</u>

COPPER BASIN UTILITY DISTRICT

Notes to Financial Statements
June 30, 2009 and 2008

(7) Subsequent Event

In August 2009 the Board was informed of the State of Tennessee's ruling that it should operate as a "Utility District" rather than a "Board of Public Utility" component unit of Polk County, Tennessee and that the District was approved to maintain five appointed commissioners with terms to be served of a full three-year period. The Polk County Commission voted to accept this ruling.

ACCOMPANYING INFORMATION

COPPER BASIN UTILITY DISTRICT
Schedules of Operating Expenses by Department
Years Ended June 30, 2009 and 2008

	2009		
	Water	Sewer	Total
Wages	\$ 169,047	29,324	198,371
Directors fees	5,484	1,371	6,855
Utilities	45,835	2,652	48,487
Chemicals	11,422	322	11,744
Insurance	87,909	21,977	109,886
Advertising	462	116	578
Payroll taxes	12,764	2,320	15,084
Materials and supplies	35,185	6,165	41,350
Lab analysis	7,284	1,588	8,872
Depreciation	119,997	31,458	151,455
Repairs and maintenance	6,115	593	6,708
Inspection fees and permits	85	-	85
Office expense	870	218	1,088
Postage	6,644	686	7,330
Dues and subscriptions	5,680	1,420	7,100
Travel	5,471	1,368	6,839
Auto and truck expense	7,182	1,796	8,978
Contract labor	22,547	21,940	44,487
Professional fees	35,277	-	35,277
Miscellaneous	8,625	840	9,465
Waste removal	125	6,252	6,377
	<u>\$ 594,010</u>	<u>132,406</u>	<u>726,416</u>

	2008		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
\$	176,128	30,908	207,036
	4,468	1,117	5,585
	37,416	6,443	43,859
	10,116	-	10,116
	80,045	20,011	100,056
	560	140	700
	13,427	2,435	15,862
	30,490	2,424	32,914
	3,705	571	4,276
	114,130	31,458	145,588
	1,362	1,338	2,700
	640	160	800
	5,167	1,128	6,295
	4,890	1,222	6,112
	2,062	726	2,788
	3,486	872	4,358
	3,416	854	4,270
	28,243	16,428	44,671
	15,318	-	15,318
	3,622	933	4,555
	-	11,062	11,062
\$	<u>538,691</u>	<u>130,230</u>	<u>668,921</u>

COPPER BASIN UTILITY DISTRICT

Schedule of Debt Service Requirements to Maturity

June 30, 2009

		Waterworks Revenue Bonds					
		Series 2001			Series 2005		
		\$590,000			\$137,200		
Year ended	June 30	Principal	Interest	Total	Principal	Interest	Total
2010	\$	8,528	24,028	32,556	1,661	5,899	7,560
2011		8,919	23,637	32,556	1,737	5,823	7,560
2012		9,329	23,227	32,556	1,817	5,743	7,560
2013		9,758	22,798	32,556	1,901	5,659	7,560
2014		10,206	22,350	32,556	1,988	5,572	7,560
2015		10,675	21,881	32,556	2,079	5,481	7,560
2016		11,165	21,391	32,556	2,175	5,385	7,560
2017		11,678	20,878	32,556	2,275	5,285	7,560
2018		12,215	20,341	32,556	2,379	5,181	7,560
2019		12,776	19,780	32,556	2,489	5,071	7,560
2020		13,363	19,193	32,556	2,603	4,957	7,560
2021		13,976	18,580	32,556	2,722	4,838	7,560
2022		14,619	17,937	32,556	2,848	4,712	7,560
2023		15,290	17,266	32,556	2,978	4,582	7,560
2024		15,993	16,563	32,556	3,115	4,445	7,560
2025		16,727	15,829	32,556	3,258	4,302	7,560
2026		17,496	15,060	32,556	3,408	4,152	7,560
2027		18,300	14,256	32,556	3,565	3,995	7,560
2028		19,140	13,416	32,556	3,728	3,832	7,560
2029		20,019	12,537	32,556	3,900	3,660	7,560
2030		20,939	11,617	32,556	4,079	3,481	7,560
2031		21,901	10,655	32,556	4,266	3,294	7,560
2032		22,907	9,649	32,556	4,462	3,098	7,560
2033		23,960	8,596	32,556	4,667	2,893	7,560
2034		25,060	7,496	32,556	4,882	2,678	7,560
2035		26,212	6,344	32,556	5,106	2,454	7,560
2036		27,416	5,140	32,556	5,340	2,220	7,560
2037		28,675	3,881	32,556	5,586	1,974	7,560
2038		29,992	2,564	32,556	5,842	1,718	7,560
2039		31,370	1,186	32,556	6,111	1,449	7,560
2040		9,239	74	9,313	6,391	1,169	7,560
2041		-	-	-	6,685	875	7,560
2042		-	-	-	6,992	568	7,560
2043		-	-	-	7,313	247	7,560
2044		-	-	-	1,493	8	1,501
	\$	537,843	448,150	985,993	131,841	126,700	258,541

Note: Actual maturity dates may vary from original bond maturity dates due to prepayments of principal.

COPPER BASIN UTILITY DISTRICT
Schedules of Property Additions and Retirements
Years Ended June 30, 2009 and 2008

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2009</u>
Land and land easements	\$ 142,000	3,900	-	145,900
Buildings and distribution system	4,849,087	577,054	-	5,426,141
Sewer plant	1,197,034	-	-	1,197,034
Equipment and furnishings	50,590	3,974	-	54,564
Transportation equipment	41,806	-	-	41,806
	<u>\$ 6,280,517</u>	<u>584,928</u>	<u>-</u>	<u>6,865,445</u>

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2008</u>
Land and land easements	\$ 138,100	3,900	-	142,000
Buildings and distribution system	4,849,087	-	-	4,849,087
Sewer plant	1,197,034	-	-	1,197,034
Equipment and furnishings	50,590	-	-	50,590
Transportation equipment	41,806	-	-	41,806
	<u>\$ 6,276,617</u>	<u>3,900</u>	<u>-</u>	<u>6,280,517</u>

COPPER BASIN UTILITY DISTRICT

Schedule of Insurance Coverage

June 30, 2009

<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Public Officials Liability: Period covered - 3/1/09 to 3/1/10	
Each claim limit	\$ 1,000,000
Annual aggregate limit	3,000,000
Workers' Compensation: Period covered - 1/30/09 to 1/30/10	Statutory
Employer's liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Fidelity Bonds: Period covered - 9/20/08 to 9/20/09	
Commissioners (5)	70,000 each
Office Manager	70,000
Office Clerk	70,000
Commercial Package: Period covered - 3/1/09 to 3/1/10	
General Liability:	
Damage to premises	1,000,000
Personal injury and advertising injury	1,000,000
Professional liability	1,000,000
Medical expense (any one person)	10,000
Aggregate per coverage	3,000,000
Products - completed operations aggregate	3,000,000
Commercial Property:	
Real and personal property and equipment	3,031,226
Covered property and coverage extensions	500,000
Loss of income/extra expense	25,000
Wrongful Acts:	
Each claim limit	1,000,000
Annual aggregate limit	3,000,000
Crime Liability (per occurrence):	
Employee theft	50,000
Forgery or alteration	50,000
Theft of money and securities - inside premises	50,000
Robbery/safe burglary - inside premises	5,000
Outside premises	50,000
Computer fraud	25,000
Funds transfer/Money orders	25,000
Money orders	25,000
Inland Marine Coverage:	
Blanket small tools and equipment	25,000
Contractor's equipment	10,000
Automobile Liability:	
Liability	1,000,000
Uninsured/underinsured motorist	1,000,000
Medical payments	5,000

COPPER BASIN UTILITY DISTRICT
 Schedule of Customers and Utility Rates in Force
 June 30, 2009

Customers Billed:

Water only	1,128
Water and sewer	212
Total all customers	1,340

Utility Rates in Force:

<u>Residential Rate</u>	<u>Water</u>	<u>Sewer</u>
First 2,000 gallons - minimum charge	\$ 19.89	\$ 8.48
Over 2,000 thru 5,000 gallons (per thousand)	7.50	3.83
Over 5,000 gallons (per thousand)	9.00	3.83
(plus applicable sales tax on water)		

<u>Commercial Rates</u>	<u>Water</u>	<u>Sewer</u>
First 2,000 gallons - minimum charge		\$ 12.29
3/4" meter	\$ 26.01	
1" meter	36.96	
2" meter	71.18	
4" meter	105.41	
6" meter	139.63	
Over 2,000 thru 5,000 gallons (per thousand)	9.65	7.53
Over 5,000 gallons (per thousand)	11.58	7.53
(plus applicable sales tax)		

Meter Service Fees

1 inch Basic 2000 gallons		\$ 31.59
2 inch Basic 2000 gallons		60.84
4 inch Basic 2000 gallons		90.09
6 inch Basic 2000 gallons		119.34
Water Tap Fee (basic)		\$ 1,000.00
Sewer Tap Fee (basic)		\$ 500.00
Reconnect Fee		\$ 50.00
Service Charge (non-refundable)	<u>Home/Business</u>	<u>Renter/Lease</u>
	\$ 50.00	\$ 60.00

There is an additional service charge in the amount of \$5 per room, for motels, nursing homes, hospitals, bed and breakfast and any businesses that have a private bath in each individual room.

Returned Check Fee	\$ 20.00
Late Payment Fee	10% of Water Bill

COPPER BASIN UTILITY DISTRICT

Schedule of Unaccounted For Water

Year Ended June 30, 2009

(All amounts in gallons)

A Water Treates and Purchased:

B Water pumped (potable)	84,522,000
C Water purchased	<u>0</u>
D Total Water Treated and Purchased (Sum of lines B and C)	<u>84,522,000</u>

E Accounted for Water:

F Water sold	52,624,960
G Metered for consumption (in house usage)	11,324,880
H Fire Department(s) Usage	20,000
I Flushing	200,000
J Tank Cleaning/Filling	0
K Street Cleaning	0
L Bulk Sales	0
M Water Bill Adjustments	<u>0</u>
N Total Unaccounted for Water (Sum of lines F thru M)	<u>64,169,840</u>
O Unaccounted for Water (Line D minus Line N)	20,352,160
P Percent Unaccounted for Water (Line O divided by Line D times 100)	24.08%

Q Other (explain)

See Below

Expain Other:

None

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

COPPER BASIN UTILITY DISTRICT

Schedule of Cash

June 30, 2009

<u>Unrestricted</u>	<u>Interest Rate</u>	<u>Balance</u>
Peoples Bank of East Tennessee:		
Operating account	0.40%	\$ 42,230
Revenue account	0.50%	<u>204,227</u>
Total unrestricted cash		<u>\$ 246,457</u>
 <u>Restricted</u>		
Peoples Bank of East Tennessee:		
Revenue account	0.50%	\$ <u>6,596</u>
Total restricted cash		

COPPER BASIN UTILITY DISTRICT

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

CFDA No.	Description	Balance 6/30/08	Cash Receipts	Expenditures	Repaid to Federal Government	Balance 6/30/09
<u>Loans</u>						
	<i>U. S. Department of Agriculture</i>					
	Water and Waste Disposal Systems					
10.760	for Rural Communities	\$ 678,799	-	-	9,115	669,684



Report On Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Commissioners
Copper Basin Utility District
Turtletown, Tennessee

We have audited the financial statements of the Copper Basin Utility District (the "District") a component unit of Polk County, Tennessee as of and for the year ended June 30, 2009, and have issued our report thereon dated January 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Commissioners, federal awarding agencies, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

HG & A Associates, P.C.

January 6, 2010